

## Message Text

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ACTION EB-08

INFO OCT-01 AF-10 EUR-12 EA-10 ISO-00 AGRE-00 CEA-01  
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05  
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15  
STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02  
FEAE-00 OMB-01 /106 W  
-----050410 251247Z /47

R 251120Z AUG 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 7640  
INFO AMEMBASSY TOKYO  
AMEMBASSY NAIROBI

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 14198

FOR EB/ISM - MR LENAHAH  
NAIROBI - HOLD FOR THIGPEN

E.O. 11652: GDS  
TAGS: EMIN, ITXC, JA  
SUBJECT: TIN -- CONDITIONS ON BUFFER STOCK CONTRIBUTIO

REF: TOKYO 12662

1. SUMMARY. RE LENAHAH/THIGPEN TELECON, PROPOSAL BY KURODA OF MITI FOR PLACING CONDITIONS ON US CONTRIBUTION HAS MERIT. WE ASSUME KURODA HAS IN MIND INSURING THAT CASH IN THE HANDS OF THE INTERNATIONAL TIN COUNCIL (ITC) FROM SALES OF US CONTRIBUTED TIN IS AT ALL TIMES PRO-RATA WITH PRODUCER CONTRIBUTIONS. THE RECENT UK CONTRIBUTION OFFERS A PRECEDENT. HOWEVER, WE COULD NOT JUSTIFY PLACING CONDITIONS CONFERRING GREATER PRIVILEGES ON THE U.S. THAN ENJOYED BY EXPORTERS NOR SHOULD WE PREJUDICE FLEXIBILITY FOR USING CONTRIBUTION OF TIN METAL FOR MAXIMUM MARKET IMPACT. THIS CABLE SUMMARIZES BUFFER STOCK CONTRIBUTION SITUATION UNDER FIFTH INTER-CONFIDENTIAL

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NATIONAL TIN AGREEMENT (ITA). END SUMMARY.

2. CONTRIBUTIONS BY PRODUCERS. AS NOTED IN REFTTEL, EXPORTING MEMBERS WERE OBLIGATED TO CONTRIBUTE ONLY 7,500 TONNES OF THEIR TOTAL OBLIGATION OF 20,000 TONNES UPON PROVISIONAL ENTRY INTO FORCE OF THE 5TH ITA ON JULY 1, 1976 (ART 21(A)(I). THE BALANCE IS CALLABLE

BUT TO DATE NONE HAS BEEN CALLED UP BY THE COUNCIL; SO THE PRESENT SITUATION IS THAT EXPORTING MEMBERS HAVE CONTRIBUTED ONLY 37.5 PERCENT OF THEIR OBLIGATION.

3. CHANGEOVER FROM 4TH TO 5TH ITA. THE PROCESS BY WHICH EXPORTING MEMBERS MET THEIR INITIAL OBLIGATIONS WAS COMPLEX. AT THE END OF THE 4TH AGREEMENT BUFFER STOCK HAD POUNDS STERLING 63,000,000 OF DISPOSABLE ASSETS, INCLUDING 2,822 TONNES OF TIN METAL VALUED AT THE THEN MARKET PRICE OF POUNDS STERLING 4,580 PER TONNE. THIS WAS REDISTRIBUTED TO ALL CONTRIBUTORS (INCLUDING CONSUMERS WHO HAD MADE VOLUNTARY CONTRIBUTIONS) ON A PRO RATA BASIS AS OF JUNE 30, 1976. WITH THE PROVISIONAL ENTRY INTO FORCE OF THE 5TH ITA, THE ITC CALLED UP THE INITIAL 7,500 TONNES FROM EXPORTERS UNDER ART 21(A), EVALUATED AT THE EXISTENT FLOOR PRICE OF M\$1,000 PER PIKUL (EQUIVALENT TO POUND STERLING 3,650 PER TONNE). IN EFFECT, THEREFORE, THE BUFFER STOCK SIMULTANEOUSLY DISPOSED OF 63 MILLION POUNDS STERLING WHILE ACQUIRING ASSETS EQUIVALENT TO POUND STERLING 27,375,000. THE BUFFER STOCK THEN REPURCHASED, AT MARKET PRICE, THE 2,822 TONNES OF TIN METAL WHICH IT HAD HELD ON JUNE 30.

4. CONSUMER CONTRIBUTIONS. SO FAR, DENMARK, FRANCE, THE NETHERLANDS, AND THE U.K. HAVE MADE VOLUNTARY CONTRIBUTIONS.

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CONTRIBUTIONS UNDER THE 5TH ITA (TECHNICALLY CALLED "ADDITIONAL CONTRIBUTIONS"). FRANCE AND THE NETHERLANDS CARRIED OVER THE REFUNDS DUE THEM FROM THE 4TH AGREEMENT BUT NEITHER HAS YET MADE A FURTHER CONTRIBUTION. THE NETHERLANDS HAS PLEDGED TO CONTRIBUTE IN TOTAL ITS PRO-RATA SHARE OF 20,000 TONNES ON A VOTE BASIS. FRANCE STILL HAS NOT CLARIFIED ITS INTENTIONS, BUT IS EXPECTED TO FOLLOW SUIT. NEITHER HAS YET SPECIFIED WHETHER IT INTENDS TO PAY IN ITS TOTAL CONTRIBUTION IN A LUMP SUM OR PRO-RATA WITH PRODUCER CALL UPS.

5. DENMARK HAS STATED ITS INTENTION TO MAKE ITS SMALL CONTRIBUTION OF POUND STERLING 273,000 IN A LUMP SUM PAYMENT. ITS LETTER OF INTENT ESTABLISHES THAT THE DANISH CONTRIBUTION "CORRESPONDS TO THE PROPORTIONATE SHARE OF DENMARK OF THE 20,000 TONNES OF TIN METAL WHICH IS THE TOTAL CONSUMER CONTRIBUTION FORESEEN IN THE AGREEMENT". THE LETTER STIPULATES THREE STANDARD CONDITIONS:

(1) THIS CONTRIBUTION "SHALL RANK EQUALLY WITH THE CONTRIBUTIONS OF PRODUCING COUNTRIES MADE UNDER ART 21

IN THE OPERATIONS OF THE BUFFER STOCK UNDER ART 28".

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STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02  
FEAE-00 OMB-01 /106 W  
-----050325 251247Z /47

R 251120Z AUG 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 7641  
INFO AMEMBASSY TOKYO  
AMEMBASSY NAIROBI

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(2) REFUNDS WILL NOT BE REQUESTED BY DENMARK BEFORE  
THE LIQUIDATION OF THE BUFFER STOCK UNDER ART 25,  
SUBJECT ALWAYS TO ART 22(A).

(3) TIN WARRANTS AVAILABLE AS SECURITY FOR BORROWING  
BY THE COUNCIL UNDER ART 24 SHALL INCLUDE WARRANTS  
PURCHASED FROM THE DANISH CONTRIBUTION.

6. THE UK CONTRIBUTION DIFFERS FROM THE OTHERS IN TWO  
RESPECTS: THE UK HAS PLACED A POUND STERLING CEILING  
OF 6 MILLION ON ITS TOTAL CONTRIBUTION, WHILE PLEDGING  
AN INITIAL CONTRIBUTION OF POUND STERLING 2,492,590.  
THE UK LETTER OF INTENT, DATED JULY 12, 1977, STATES  
THAT "SUBSEQUENT PRO-RATA INSTALLMENTS WILL BE PAID,  
(UP TO THE 6 MILLION CEILING) AS AND WHEN THE COUNCIL  
MAY DECIDE TO CALL UP FURTHER CONTRIBUTIONS FROM  
PRODUCING COUNTRIES IN ACCORDANCE WITH ART 21." THIS  
IN EFFECT PLACES A CONDITION THAT THE UK WILL HAND OVER  
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THE CASH TO THE BUFFER STOCK AT NO GREATER RATE THAN THE PRODUCING MEMBERS DO.

7. POSSIBLE CONDITIONS ON A US CONTRIBUTION. WE THINK WHAT KURODA HAS IN MIND IS WORKING OUT A RECEIPT FROM SALES REFUND SYSTEM THAT IN EFFECT WOULD PLACE A CONDITION ON OUR CONTRIBUTION SIMILAR TO THAT PLACED BY THE U.K. (I.E., AT THE PRESENT TIME THE BUFFER STOCK WOULD RETAIN RECEIPTS FROM THE SALES OF US-CONTRIBUTED METAL PRO-RATA TO EXISTING CALL UPS FROM PRODUCING MEMBERS -- 37.5 PERCENT -- BUT WOULD RETURN THE EXCESS -- 62.5 PERCENT -- TO THE U.S.) THIS WOULD BE CONSISTENT WITH ART 22(A) OF THE AGREEMENT AND DEFENSABLE. HOWEVER, FUNDS RETURNED TO THE US PRESUMABLY WOULD HAVE TO BE ON CALL WHEN AND IF REQUIRED BY THE COUNCIL.

8. KURODA'S SUGGESTION HAS MERIT AND SHOULD BE EXAMINED CAREFULLY. THERE MIGHT BE FUNDS MANAGEMENT DIFFICULTIES FOR US AND VALUATION OF REFUNDS WOULD ALSO HAVE TO BE LOOKED AT CAREFULLY. MORE IMPORTANT FROM U.S. POINT OF VIEW, IS THAT WE WOULD NOT WANT TO PLACE CONDITIONS WHICH WOULD INHIBIT THE USE OF OUR CONTRIBUTION OF METAL FOR DESIRABLE MARKET IMPACT. THE MARKET NEEDS METAL NOW AND THE U.S. HAS METAL TO GIVE. IF WE ATTEMPT TO TRANSFER THE METAL IN TRANCHES WE MIGHT FIND THAT WE WOULD BE ATTEMPTING TO GIVE METAL WHEN IT WAS NOT NEEDED, I.E., IN A PRICE WEAKNESS SITUATION AT THE VERY TIME WHEN THE COUNCIL DESIRED TO CALL UP CASH SO THAT THE BUFFER STOCK COULD TAKE METAL OFF THE MARKET.

STREATOR

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009